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ABSTRACT

This booklet on savings and investment, 1 in a series of 12, covers all the basic aspects of personal- and family-money management. Suitable for use by high school and college students as well as adults, this handbook shows how to develop a savings and investment program based on present and future needs and goals. Section 1 overviews savings and investment stages that are characteristic of the life cycle of most individuals and families. Section 2 discusses different forms of savings and characteristics of each form: bank accounts, savings accounts in savings and loans associations, government savings bonds, credit union shares, life insurance, annuities, social security in the United States, income security programs in Canada, and pension and retirement plans. These forms of investments, described in section 3, are investments in oneself (education), investments in durable goods, and investments in income-producing assets (securities, real estate, and ownership in businesses). Section 4 looks at personal net-worth statements as overall pictures of financial standings that are useful in planning future savings and investment programs. (YLB)

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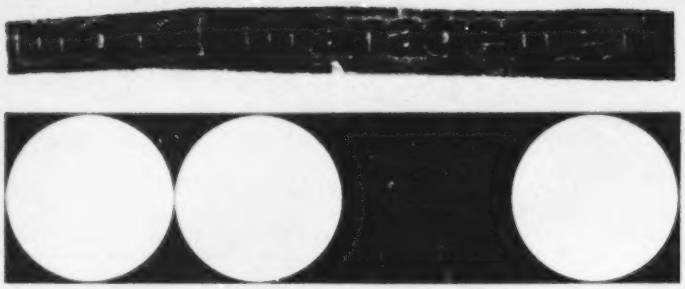

YOUR SAVINGS AND INVESTMENT DOLLAR

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Edited By

MONEY MANAGEMENT INSTITUTE

Joyce E. Bryant
Vice President-Director

Nancy H. Baran
Editor

Sharon M. Tarrant
Editor

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G. R. Ellis
Chairman of the Board and Chief Executive Officer
Household International

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INTRODUCTION

Savings and investments mean different things to different people. A savings to one person may be considered an investment to another. What savings and investments mean to you is of little importance. Of far greater concern is establishing clear-cut objectives which you, as a family or as an individual, would like to achieve. Equally important is knowing where your money should be placed to accomplish your objectives.

Since saving and investing money intelligently is important to both personal and family financial security, a knowledge of the various forms of savings and investments should be a basic part of everyone's education. This booklet is designed to help you understand the characteristics of each form as listed in the table of contents below.

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YOUR SAVINGS AND INVESTMENT OBJECTIVES

The purpose of saving and investing is to help you accomplish those objectives in life which require money. Individuals and families with the foresight and wisdom to establish both short- and long-range financial goals are the ones who seem to get ahead most rapidly. They find that planning helps them place the proper emphasis on each goal. Thus, goals become a valuable guide to balanced spending for living both now and in the future.

There are no established saving and investing patterns for families with specified incomes. Needs, wants and values differ among individuals and families, as well as during the various stages of the family life cycle. How much you can and should save or invest depends on your family size, income, level of living, spending habits, and goals. While your situation may differ from that of others, the following stages are characteristic of the life cycle of most individuals and families.

- **The Young Person.** The young person may be primarily interested in investing in himself in the form of education and/or training for a job or profession. While working at a part- or full-time job, he most likely will become eligible for participation in social security. In many jobs, he also will be contributing to a pension fund and insurance. If marriage is planned, developing a life insurance and savings program to establish a home may be important.

- **The Beginning Family.** After marriage, financial plans may not vary from those before marriage if either partner continues his education. If both work, savings may be for home furnishings or a new investment program. Young families try to save some of their income for future needs, recognizing that demands on income increase as the family grows.

- **The Growing Family.** With the arrival of children, family needs expand and expenses continue to increase until education of children is completed. Money is required for investment in durable goods and possibly homeownership. The insurance program should place emphasis on maximum protection. Depending on the size of income and demands on it, savings may be limited during this period.

- **The Contracting Family.** Savings and investment objectives change when children leave home to marry or take jobs and parents are no longer responsible for children's support. Major expenditures may be for furniture replacement, new wardrobes, and recreation. This is also the time

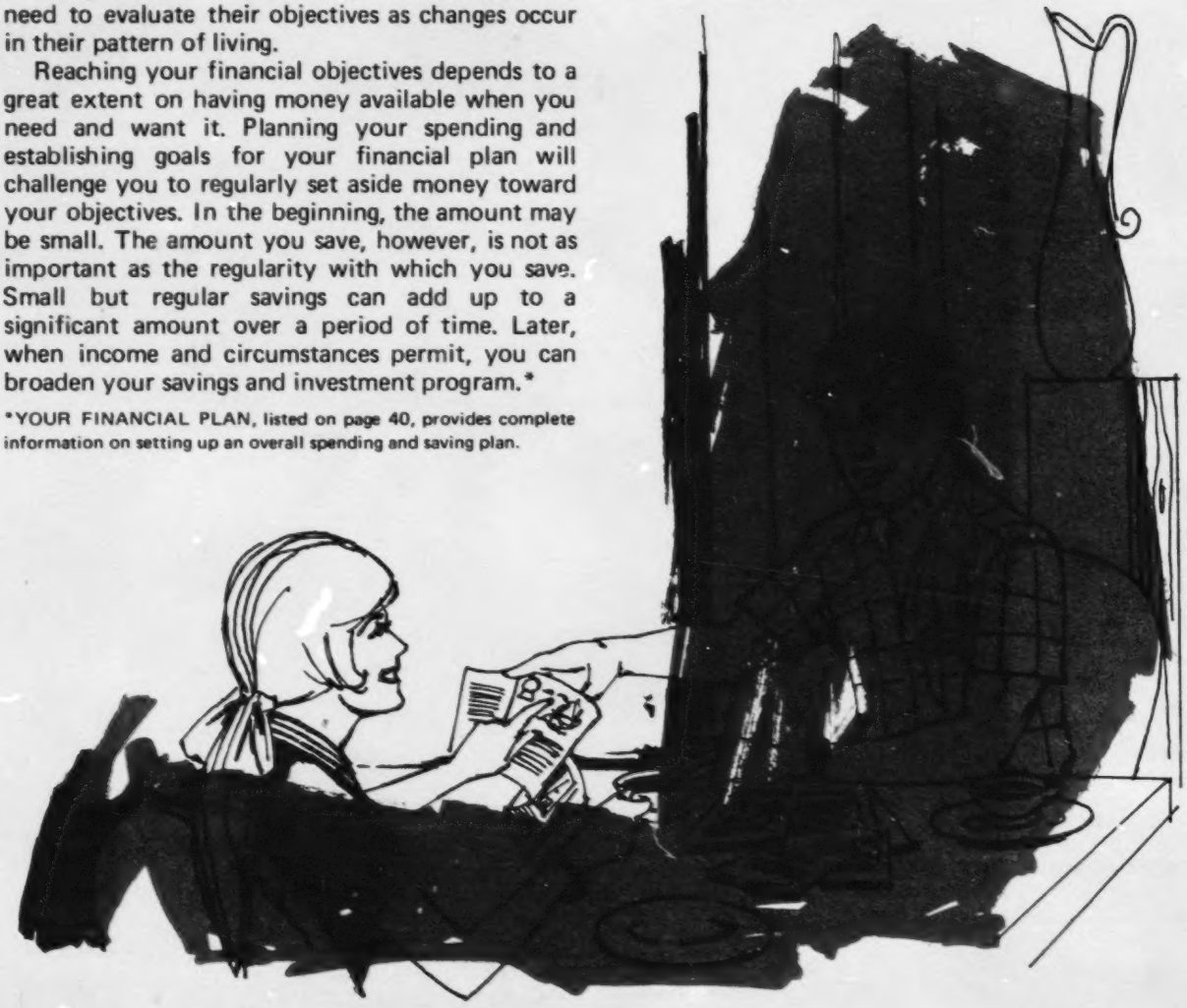
to concentrate on present needs and wants and to prepare for retirement years.

• **Retirement Years.** Retired people may be living on savings and returns on investments made during their lifetime. Social security and/or pensions, annuities and income-producing investments may provide for expenses for the remainder of their lives. Their degree of security at this stage is greatly influenced by the quality of financial planning done in all the preceding stages of the family cycle.

• **Single Adults.** Single adults may have different savings and investment objectives from those of married people because they usually do not have the same financial responsibilities. Their objectives for saving and investing could be to live effectively in the present as well as in the future. They, too, need to evaluate their objectives as changes occur in their pattern of living.

Reaching your financial objectives depends to a great extent on having money available when you need and want it. Planning your spending and establishing goals for your financial plan will challenge you to regularly set aside money toward your objectives. In the beginning, the amount may be small. The amount you save, however, is not as important as the regularity with which you save. Small but regular savings can add up to a significant amount over a period of time. Later, when income and circumstances permit, you can broaden your savings and investment program.*

*YOUR FINANCIAL PLAN, listed on page 40, provides complete information on setting up an overall spending and saving plan.



SAVINGS

Saving is putting away money from present income for use sometime in the future. The greatest incentive to save is having a purpose, such as saving for an emergency fund, an education, or for homeownership.

There are many different ways of saving money and each has its own special characteristics. Your choice should be based on what you want to achieve with your savings and when you plan to use the money — this year, next year, or 20 or more years from now. The sooner you start, the greater the number of years you will have to build up savings.

BANK ACCOUNTS

A bank is a financial institution which receives deposits of money from customers and serves other functions according to its charter. Commercial banks are owned by stockholders; they offer such special services as regular checking and savings accounts, safe deposit boxes, personal and mortgage loans, trust facilities, cashier's and travelers' checks, and the sale and redemption of government savings bonds. Mutual banks are owned by depositors. They specialize in savings accounts and actively participate in the mortgage field.

A *checking account* makes it possible to have money readily available for payment of bills and expenses by check. A check is a form a bank furnishes its customers, directing the bank to pay from the funds of the depositor a stated amount of money to a stated person. A check serves as a record and proof of payment. A checking account also can help in establishing credit in a community.

By law, regular checking accounts cannot earn interest. In fact, customers traditionally have been charged for checking services. The charge may be based on the amount in the account and the number of checks drawn monthly, or a definite amount may be charged for each check. However, a growing number of banks now waive service charges for customers who maintain the minimum balance required by the bank.

Commercial and mutual savings banks in the United States now offer two kinds of savings accounts with check-type withdrawal privileges.

- The **automatic transfer service** involves two separate accounts—one checking, the other savings. Upon opening the accounts, you authorize the bank to transfer funds from the savings account to the checking account to cover any checks you write.

Until the transfer takes place, the checking account usually shows a zero balance.

• **Negotiable orders of withdrawal (NOW) accounts** involve a single savings account. You write withdrawals against this account, using a form similar to a check.

The costs and requirements to be met in these plans vary from one bank to another, so it is important that you shop carefully before opening either one.

Today there are several different kinds of savings vehicles available through banks and other financial institutions. Some of the most popular of these are described below.

• **Passbook savings accounts.** These can be opened with a small deposit and future deposits can be made in any amount desired. Your passbook is a duplicate of the record kept by the bank. Withdrawals can be made any time, but banks legally can require 30 days notice. The interest rate paid is set by federal law, but it is calculated in different ways. Find out if it is compounded and how often. This can make a big difference in your return.

• **No-Passbook Savings Accounts** (Statement Savings). These eliminate the passbook. No balance is computed or recorded as transactions occur. Instead, the depositor receives validated deposit and withdrawal receipts, and he may compute his balance in a record book provided by the bank. Statements are mailed after interest has been credited to the account.

• **Certificates of Deposits (CDs),** also known as time deposits, savings certificates and investment certificates. These are issued in exchange for depositors' money, mainly in denominations of $100, $500, $1,000, $10,000 or more, although many financial institutions do not require a minimum. CDs pay higher rates of return than passbook savings do, and they have a wide range of maturities and interest rates. There are six-month, one-year (including All-Saver certificates), 30-month (Small Saver Certificates), four-year and eight-year certificates. There is a penalty for withdrawing funds prior to the dates specified on the certificates.

• **Repos or Retail Repurchase Agreements** enable savers to get a piece of a large government security for as little as $1,000. On a specified date, which could be anywhere from a day to three months later, the bank will repurchase the saver's investment and pay a proportionate share of interest on the security. Repos are not insured.

In Canada, **chartered banks** offer all the services

of commercial banks except trust facilities. In addition, checks can be drawn against a savings account. **Trust companies** offer trust facilities and savings accounts with limited checking account privileges.

When choosing a bank, you may wish to consider the following points.

- **Are deposits insured?** In the United States, the Federal Deposit Insurance Corporation (FDIC) insures deposits in member banks up to $100,000 for each depositor. Therefore, look for the FDIC insignia in the bank as this indicates that depositors are protected against loss. In Canada, bank deposits are not insured, but the bank's investments and reserves are carefully inspected by the government to give protection to depositors.
- **What rate of interest is paid on savings accounts?** In the United States, the interest rate varies from time to time and among different banks. In Canada, the interest rate offered by Canadian chartered banks varies. Trust companies, which combine some of the services of a commercial bank along with that of managing property and financial affairs of clients, generally pay approximately the same interest rates on savings as do chartered banks.

The method by which interest is figured also can be important in affecting the amount of interest your money will earn. Therefore, find out whether your savings deposits earn compound interest and when it is payable – daily, quarterly, semiannually or annually.

- **What special services are offered by the bank?** Find out what services are available and evaluate their importance and cost to you. Consider, too, the overall atmosphere of the bank. Are the personnel friendly and will you receive personalized attention? Inquire at several banks in your community and compare services.
- **Is convenience of location important?** If you deposit or withdraw money frequently, location can be important. Many banks also accept and service checking and savings accounts by mail.

SAVINGS ACCOUNTS IN SAVINGS AND LOAN ASSOCIATIONS

Savings and loan associations*, found mainly in the United States, are usually mutual associations – i.e., they are owned by members. S & Ls continue to specialize in individual savings accounts and residential mortgage financing although, like all other financial institutions, they are expanding their customer services. Savings and loans offer a variety of savings plans, many designed to enable customers to obtain a market rate of interest on minimum deposits: All Savers certificates, 6-month money market certificates, 30-month certificates (Small Savers), IRA and Keogh Retirement plans, passbook accounts, NOW accounts and Repos. Rates vary considerably from one type of savings vehicle to another.

- **Are accounts or shares insured?** All federally chartered associations in the United States are required to insure each account up to $100,000 with the Federal Savings and Loan Insurance Corporation (FSLIC), a government-operated institution.
- **What rate of return is paid?** Savings and loan associations are authorized to pay slightly higher rates on most accounts than commercial banks do. They are not required to retain as high a proportion of their assets in cash and government securi-

*Sometimes called cooperative banks, homestead associations, or savings associations.

ties as are some other types of lending institutions.

• **Is money in accounts readily available?** Normally, money in accounts is available on demand.

• **What proportion of assets is held as cash reserves?** The financial statement of the savings and loan association states what proportion of assets are in cash, government bonds, or other readily available funds. This is a measure of the association's ability to meet cash withdrawals on the part of its depositors.

GOVERNMENT SAVINGS BONDS

Government savings bonds differ from marketable government bonds (discussed on page 25) in that savings bonds can be purchased for varying amounts and have fixed redemption values both before and at maturity.

On January 2, 1980, U.S. Series E and Series H savings bonds were replaced by Series EE and HH. To obtain information on the costs, rates of return and maturities of these bonds, contact either your local bank, a securities broker, a Federal Reserve Bank or Branch, or write to the U.S. Treasury Department, Savings Bonds Division, Washington, D.C. 20226.

In Canada, a new series of savings bonds has been issued each year since 1946. For information on the current issue, inquire at any Canadian chartered bank or write to the Bank of Canada, 234 Wellington Street, Ottawa, Ontario K1A 0G9.

Government savings bonds are a safe form of saving because they are an obligation of the government. In case of loss or destruction, bonds can be replaced upon application to the government. In the United States, a record of the owner's name, address and the serial number of each bond is kept by the Bureau of Public Debt, Division of Loan and Currency, 200 Third Street, Parkersburg, West Virginia 26101. In Canada, records are kept by the Bank of Canada.

The following features may be helpful to you in evaluating government savings bonds as a form of savings for you.

• **They are a convenient form of saving.** Banks sell or redeem them without charge. You may establish a regular system for buying bonds through a payroll savings plan at your place of work or at your bank.

• **They offer a high degree of safety of principal, together with a reasonable rate of return.** Most government savings bonds earn compound interest. However, they must be held to maturity to earn the full amount of interest.

• **They usually can be redeemed at will and at fixed, predetermined amounts.** Thus, the risk of market fluctuations is avoided. In the United States, savings bonds must be held for a minimum of six months before redemption.

• **They provide a fixed rate of return.** This can be an advantage or disadvantage, depending on economic conditions.

CREDIT UNION SHARES

Credit unions are cooperative associations that have two basic functions: accepting savings and extending consumer loans. Many credit unions also offer such services as share drafts (cheques in Canada), credit cards, travelers' checks, and automated teller machines. A credit union is organized by members of a particular group – for instance, people working for the same employer; people who belong to the same fraternal order, church or labor union; or people who live in the same closely knit community.

Credit unions encourage members to save regularly. Savings are called "shares" in the credit union, and from their accumulated capital, loans are made to members. After expenses are paid and legal reserves set aside, the credit union's income is returned to members in the form of dividends on their savings. The amount may vary significantly.

All federally chartered credit unions and all state-chartered credit unions (in the states that have laws tied to the federal laws), now have the authority to pay up to 12% on share accounts (the equivalent of passbook accounts), and share draft accounts. Most unions pay dividends quarterly.

Many credit unions also offer *share draft accounts,* the equivalent of NOW accounts, in addition to *share certificate accounts.* The latter pay a higher rate of return than do regular share accounts, if the funds remain on deposit for a pre-established period of time. A penalty is imposed for early withdrawal.

Credit unions vary in size from small groups having a few thousand dollars of assets to large groups with millions of dollars of assets. The board of directors is responsible for the general direction of the credit union's activities and objectives. Separate committees of members may handle loan applications and have responsibility for preparing the required quarterly audits and review of other operations.* The larger credit unions employ a full-time General Manager and staff to conduct day-to-day operations. Often, operating facilities and sometimes clerical help are donated by the employer or sponsoring organization. Frequently, voluntary directors and committee members provide services to credit unions. In the United States,

*In Canada, credit unions submit financial reports to provincial deposit insurance corporations on a monthly basis.

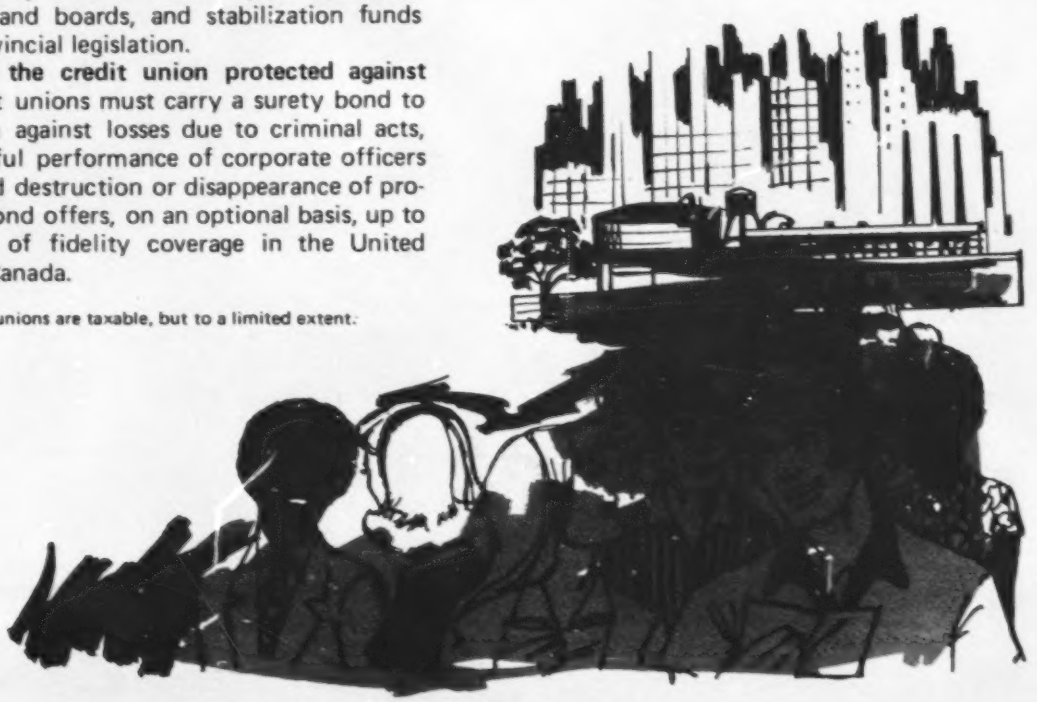
credit unions are exempt from federal income taxes.*

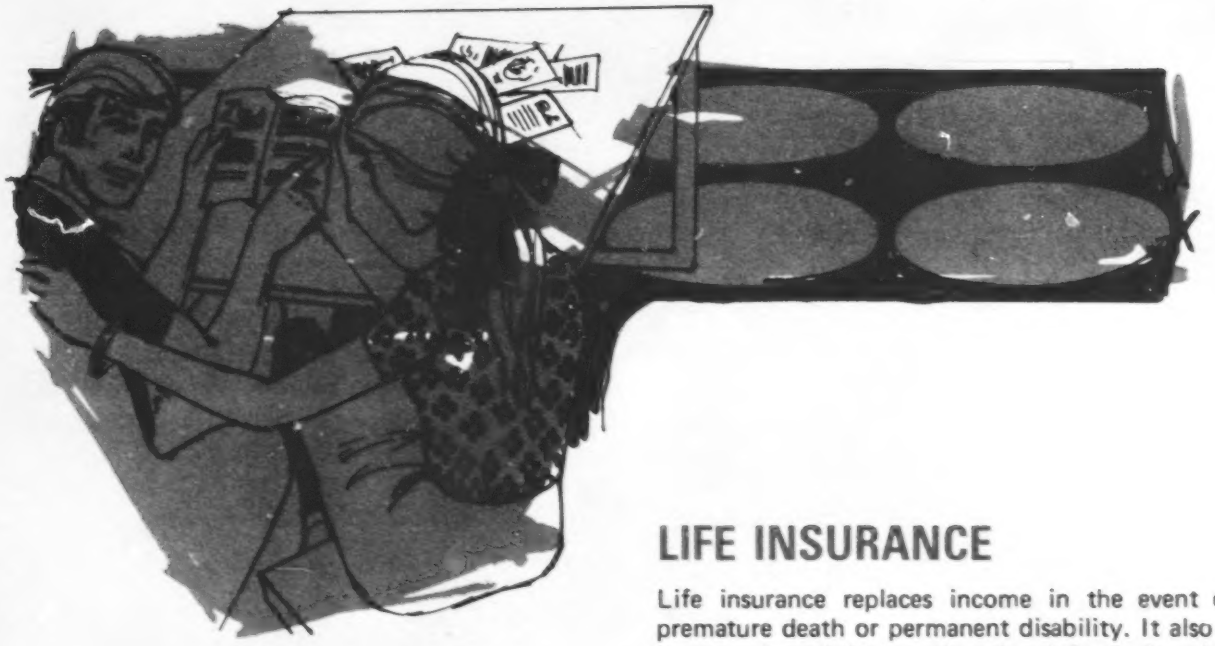
In the United States, credit unions are chartered by both the federal and state governments. In Canada, they are chartered by the province. An official of the chartering government, or his representative, examines the books and records of each credit union at least once a year.

Since credit unions vary widely in size, managerial staff, and services offered, the following points may serve as a basis in evaluating any credit union which you may be considering.

- **Are share accounts insured?** In the United States, the Federal Share Insurance Act became law in October 1969. Savings in federal credit unions are insured up to $100,000 per account by the Administrator, National Credit Union Administration, an agency of the United States Government. The act makes this insurance mandatory for all federal credit unions and optional for state-chartered ones that can meet the necessary qualifications. Legislation providing for the insurance coverage of over 1,200 federal credit unions became effective January 3, 1972. Several states also have their own share insurance plans for state-chartered credit unions. In fact, 96.9% of all credit union deposits are insured. In Canada, most share deposits are protected by the share and deposit insurance corporations and boards, and stabilization funds set up by provincial legislation.
- **How is the credit union protected against losses?** Credit unions must carry a surety bond to protect them against losses due to criminal acts, lack of faithful performance of corporate officers and staff, and destruction or disappearance of property. The bond offers, on an optional basis, up to $10,000,000 of fidelity coverage in the United States and Canada.
- **How adequate are its reserves?** In the United States, a federal credit union must establish a regular reserve to which 10% of the credit union's gross income is transferred until the regular reserve equals 7½% of outstanding loans and risk assets. After this is realized, a 5% transfer of gross income is required until the regular reserve reaches 10% of outstanding loans and risk assets. State and provincial credit unions also must set aside reserves, although the formulas vary from state to state and from province to province.

*Canadian credit unions are taxable, but to a limited extent.





LIFE INSURANCE

Life insurance replaces income in the event of premature death or permanent disability. It also is a way of establishing educational funds for children and payment of federal, estate and state inheritance taxes. Life insurance has additional uses in protecting a business against the loss of a key man, or to aid a surviving partner in buying the interest of a deceased business partner. Your needs and circumstances are the best guides to deciding what type and amount of life insurance to buy.

Ordinary life insurance is sold on an individual basis with premiums payable monthly, quarterly, semiannually or annually. Since each policy is sold individually, it is often possible to adapt the provisions to your specific needs. There are three distinctly different types of ordinary life insurance – term insurance, straight life, and endowment.

• **Term insurance** offers protection for a limited period of time, as stated in the policy – usually 5, 10 or 20 years, or to a stated age, such as 65 years. Term insurance can be purchased with a provision permitting renewal (the policy may be continued without another medical examination) but always at a higher rate of premium as the policyholder becomes older. If term insurance is purchased with a conversion privilege, this permits the policyholder to change the policy to another form of life insurance without a medical examination. The premium for term insurance is the lowest of all types because it is strictly insurance without any element of savings, whereby cash values are built up.

• **Straight or whole life insurance*** provides protection until death with premium payments at a somewhat higher cost initially than term insurance. As premiums are paid, a reserve is built up and the policy develops a *cash surrender* and *loan value.* The cash surrender value of the policy is the guaranteed amount, as stated in the policy, which will be paid to the policyholder at any specified time should the policy be discontinued. The loan value is the amount stated in the policy which the policyholder may borrow from the insurance company. Interest at the rate indicated in the policy must be paid or added to the unpaid balance of the policy loan, and the value of the policy is reduced by the unpaid balance of the loan until the loan is repaid.

• **Limited payment life insurance,** like straight life, also offers lifetime protection. Premiums are paid throughout a specified number of years or to a stated age. The premiums are higher than for straight life because they are paid over a limited period of time. The higher premiums build higher cash and loan values in a shorter space of time than do premiums for straight life insurance.

• **Endowment policies** combine life insurance with a high degree of savings. Premiums are paid over a stated number of years or to a stated age. The shorter the period for which premiums are paid, the higher the premium. At maturity, the face value may be taken in a lump sum or in installments. If the policyholder dies before the premium period has expired, his beneficiary receives the proceeds of the policy.

In addition to these basic types of ordinary insurance, there are combinations designed to meet special needs.

• **A family income policy** is a combination of straight life and decreasing term insurance and may be less expensive than buying each separately. If the policyholder dies during the term stated, his family receives a regular monthly income from the time of his death until the end of the term, in addition to the amount paid the beneficiary under the straight life provision. If the policyholder lives beyond the end of the term, the family is still protected by the straight life portion of the policy.

• **A family policy** is a combination of straight life and term insurance. It insures the life of every member of the family. The straight life portion covers the main breadwinner. The term portion covers the wife and children. Insurance on the children can be converted to other insurance when they are older regardless of their health or occupation at that time.

*Called permanent life insurance in Canada.

• A **retirement income policy** is a form of endowment policy with annuity features. The life insurance portion provides protection for the insured's family in case he or she dies before the policy matures. The income provision guarantees the insured or his or her beneficiary, in the event of the insured's death, a stated monthly income to begin at a specified time and to be paid for life or for the length of time stated in the policy.

• **Group life insurance** is sold on a group basis under one policy and usually without medical examination to a business organization, industry, professional group, labor union, or other common interest group. Each insured employee or member receives a certificate stating the amount of his insurance, his rights, and benefits. In some groups, the policyholder (who, in this case, is the sponsoring company or organization) pays the full premium. In other cases, each insured employee or member pays some or all of the premium. Group insurance is usually issued on a renewable term basis for one year and generally has no cash value. A conversion clause will permit the insured employee or member to convert the policy, usually within 31 days after he leaves the group, to straight life or endowment insurance at a premium based upon his age but without medical examination.

• **Industrial life insurance** differs from ordinary life in that premiums are paid weekly, or at other short intervals, to the agent who calls at the policyholder's home. This type of insurance usually is issued without medical examination. Because of the expense of handling these policies and their small average size, premium rates are higher than for ordinary life insurance. High cost plus an increasingly higher level of living have resulted in a decrease in the sale of this type of insurance.

The following points may be helpful when selecting life insurance to fit your individual situation.

• **Select a competent life insurance agent** who 1) can advise you in choosing insurance in line with your needs and objectives, 2) is licensed in your state or province, 3) is well-trained, 4) knows his business, and 5) will be a trusted advisor. The recommendation of people you know who have done business with an agent can be one of your best guides. If the letters "CLU" appear after the agent's name, this indicates that he has passed the Chartered Life Underwriter examination.

* Choose an insurance compnay that is licensed to do business in your state or province. By law, a company represented by an agent in a particular state or province must be licensed to do business in that state or province. This law is a protection to the policyholder and requires that the company be subject to periodic examination, file annual reports, and maintain the required reserves. Also, find out if a company has a reputation for giving good service.

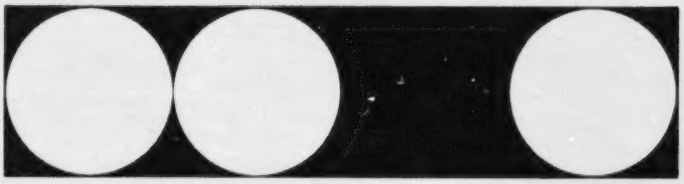
* Plan a realistic life insurance program based on what you need and can afford. Secure maximum coverage when your needs are greatest such as when you have growing children. The cost of policies with identical provisions is about the same. However, it is important to choose a competent agent who represents a company with a good reputation and work out a suitable program with him. To keep your insurance in force, you must pay premiums regularly. This requires a fairly accurate forecast of whether you can make definite payments in the future as specified in your policy. Use the following chart to compare the cost of different types of life insurance policies with the same face value purchased by males and females at different ages.

MONTHLY RATES PER $1,000
FACE AMOUNT OF LIFE INSURANCE
(ASSUMING $10,000 PURCHASE)

AGE	M20 F23	M30 F33	M40 F43	M50 F53
5-Year Term	.29	.38	.65	1.38
10-Year Decreasing Term	.18	.21	.33	.70
Straight or Whole Life	1.23	1.65	2.34	3.55
Paid-Up At Age 65	1.36	1.91	2.94	5.27
20-Payment Life	2.11	2.64	3.36	4.45
Retirement Income at Age 65	2.33	3.33	5.23	9.72
20-Year Endowment	4.03	4.11	4.36	5.02

• **Before you select a policy, be sure you understand all its requirements, provisions and benefits.** The questions listed below may help in choosing a policy best suited to your needs.

1. *What is the amount of the premium and when must it be paid – monthly, quarterly, semiannually or annually?* The less frequently premiums are paid, the lower the cost because less work is involved for the insurance company, and interest is earned beginning with the first premium payment. Most companies charge a lower premium per thousand dollars on policies of $5,000 and larger amounts.



2. *What special provisions does the policy offer?* These vary with different policies and sometimes increase the premium. A grace period – usually 31 days – for payment of premiums is allowed by most life insurance companies. If premiums are not paid within this time, the policy protection may cease. An automatic premium loan provision provides that when a premium is not paid within the grace period, it is paid by a policy loan if there is sufficient cash value in the policy. A nonforfeiture provision allows the policyholder to continue some or all of the protection, should it become impossible to meet premium payments. A disability provision available at an extra premium will provide for waiver of premium – policyholder need not pay premium – and sometimes for monthly payments to the policyholder if he becomes totally and permanently disabled. A double indemnity provision – also known as accidental death benefit – available at an extra premium, pays an additional amount equal to the face value of the policy in case of death due to accident.

3. *Is the policy participating or nonparticipating?* Participating policies have higher premium rates than nonparticipating policies because rates are set above what the company expects will be needed to cover all costs. Any unused portion of the premium is returned to the policyholder as a dividend, more properly called a refund. Nonparticipating policies have a lower fixed premium rate which is guaranteed for the life of the policy and no dividends are paid.

When buying insurance, there is no positive way of telling whether a participating or nonparticipating policy will be less expensive in the long run. Dividends need to be deducted from premiums paid on a participating policy to obtain the net cost, i.e., the proper figure to compare with the premium of a nonparticipating policy.

4. *Will you be able to choose how benefits will be paid?* When a policy matures, proceeds may be handled in various ways. For example, benefits may be paid as a lump sum, a regular installment income for a stated period of time, a part paid in a lump sum and the balance in installments; left with the company to earn interest; used to purchase a life income for either the insured or the beneficiary.

5. *Who are the beneficiaries?* One or more persons can be named in a policy as the primary beneficiary or beneficiaries. It is usually desirable to name a contingent (secondary) beneficiary in the event the first one should die before the insured, or in case the insured and the beneficiary should die at the same time, as in an accident.

6. *Does the policy have a policy loan provision?* This allows one to borrow any amount up to the loan value of the policy as explained under straight life insurance. The cash value of this policy accumulates as premiums are paid, the amount of which at any point of time is specified in the contract.

When you become a policyholder, inform your beneficiaries as to the benefits due them, keep your policies in a safe place, and notify the insurance company if you change your address.

ANNUITIES

Most annuities provide a guaranteed income of a predetermined amount beginning at a specified age and continuing for a set number of years or for life. Annuities are sold by life insurance companies and are available on a group or individual basis. The amount which must be paid to assure a lifetime income is statistically determined on the basis of past records. Annuities are designed primarily to provide income for the purchaser, whereas life insurance usually is bought to provide income for a beneficiary in the event of your death.

Variable annuities are also sold by life insurance companies on a group or individual basis. They differ from other annuities in that they provide income of varying amounts. Premiums go into a fund which is invested largely in common stocks. Income payments are based on the value of the fund. In this way the policyholder's income is related to economic conditions and the market. The variable annuity was designed to offer protection against loss of purchasing power due to inflation.

When buying an annuity, purchase it with the same considerations as suggested for life insurance on pages 11-14, plus the following points.

- **How will you pay for the annuity?** Annuities can be purchased on a single premium or on an installment basis, through annual, semiannual, quarterly, or monthly payments.
- **When will you start to receive annuity payments?** If the annuity is purchased with a single premium, you can choose to receive an income from the annuity immediately. This is known as an immediate annuity. If, however, an annuity is purchased on an installment basis, known as a deferred annuity, income is received at a future date since it takes time to build up an annuity fund.

Single-payment deferred annuities are now being offered by some insurance companies and stock brokerage firms. They are so called because, although paid for at one time, they do not provide benefits immediately. These annuities hold special appeal to investors because they pay a higher interest rate than most traditional annuities, and no taxes are levied on them until benefits begin—usually when the investor is in a lower tax bracket.

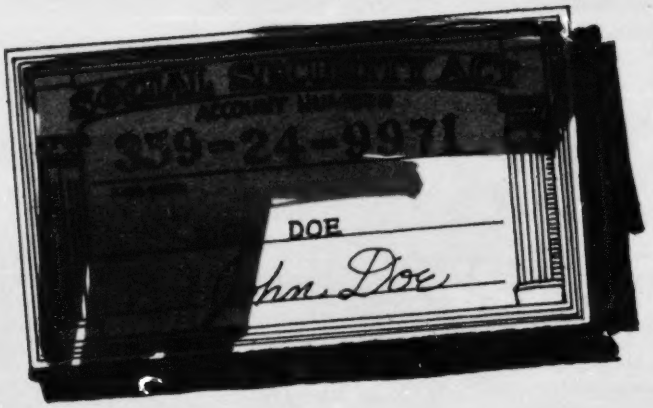
- **How will annuity payments be paid to you and/or your beneficiary?** Most annuities pay a definite income to the owner for his remaining lifetime. There are variations in the way the unused portion of the money with which you purchase the annuity will be handled after your death. If a *straight life annuity* is purchased, all payments stop at your death. *A life annuity with installment payments guaranteed* will pay you an annuity for life but specify a guaranteed time, usually 10-20 years, for which payments will be made. If you die before this, your beneficiary receives payments for the balance of the guaranteed period. In an *installment refund annuity,* if you die before you have received all the money paid in, your beneficiary receives the balance in installment payments. In a *cash refund annuity,* this balance is paid in one lump sum. *An annuity with a joint and survivor provision* pays a stated income during the lifetime of two annuitants and, after the death of one, during the lifetime of the survivor. In a *variable annuity,* the income would depend on the number of units accumulated in the fund and the market value of those units at the time the annuity payment is due.

Since there are many types of annuities, it is wise to investigate several companies and kinds to find the one that is best for you.

SOCIAL SECURITY IN THE UNITED STATES

Retirement, survivors and disability insurance, commonly known as social security insurance, is a social insurance plan to which contributions are compulsory for those working in covered occupations. A two-part health insurance program called Medicare, for people 65 and over, also is under social security.

Almost all types of occupations are covered under social security, including those on active duty in military service and most of the self-employed. This program is administered by the United States Government through the Social Security Administration, which has 1,300 offices throughout the country. Social security provides income in retirement years or in the event of death or disability of the person insured. A social security card with your name and number is issued to you when you start working. You should keep it throughout your lifetime.



Contributions to social security are made by everyone working in an occupation covered by social security through contributions which are paid as long as the employee has earnings from this work. The amount contributed is determined by law, and applies to earnings in wages or salary if employed, or to annual net earnings when self-employed.

If you are employed, you and your employer each contribute an equal amount. Your share is deducted from your wages or salary each time you are paid. This plus the employer's contributions are paid quarterly by the employer to the District Director of Internal Revenue and turned over to the social security trust funds. It is invested in interest-bearing United States Government securities and is used as needed for monthly benefit payments to eligible persons and for meeting the administrative costs of the program.

If you are self-employed, you pay a specified percentage on each dollar of earnings up to the stated yearly maximum to the District Director of Internal Revenue along with your income tax return — on or before April 15. The money is handled as outlined above.

Your record of earnings under social security is kept under the name and account number which appears on your card. If you are employed, each of your employers will provide you with a statement

of wages paid and social security contributions withheld (Form W-2) at the end of each year or at the time you leave his employ. Be sure to keep these records.

To obtain a social security card, replace a lost one, effect a change of name when a woman marries, or claim benefits, contact your local social security office. For the office in your area, look in the telephone directory under "U.S. Government—Social Security Administration," or ask at your local post office. Contact your social security office if:

- you are unable to work because of severe disability expected to last a year or more.
- you are 62 or older—to ask about retirement checks.
- you or your dependent spouse are within 2 or 3 months of 65—even if you don't plan to retire—to sign up for Medicare.
- a working person in your household dies.

You can keep up to date on social security provisions and benefits by obtaining the most recent literature from your social security district office. Remember that benefits under social security are not paid automatically — *you must make a claim.* Employees at your nearest social security office can explain the benefits due you and the requirements you must fulfill in order to become eligible for payment.

Keep a record of the social security earnings you have accumulated, and then periodically compare this with the official record. To obtain a copy, write to the Social Security Administration, P.O. Box 57, Baltimore, Maryland 21203. Include your name, social security number, date of birth and return address. If your estimate of earnings differs from the government's figure, call your local social security office.

INCOME SECURITY PROGRAMS IN CANADA

Old Age Security is a noncontributory program providing a monthly pension to all persons 65 years of age and older who can satisfy certain basic residence requirements. It also provides a *Guaranteed Income Supplement* and a *Spouse's Allowance,* both income-tested benefits. The former is paid to pensioners residing in Canada who have no income other than the pension or only a limited amount of income. The Spouse's Allowance is paid to a person 60-64 years of age who is the spouse of an Old Age Security pensioner and who meets certain residence requirements. Benefits payable under the program are adjusted quarterly when there is an increase in the cost of living, as measured by the Consumer Price Index.

If an applicant wishes to begin receiving the basic pension when 65, it is important that he/she submits an application several months before reaching that age. Application forms are available in all Post Offices and Income Security Programs Offices as well as Canadian government offices abroad. When an application is filed late, retroactive payments may only be made for a period of up to 12 months. Applications for the Guaranteed Income Supplement and Spouse's Allowance are sent automatically to potential applicants when the Old Age Security application is approved for payment.

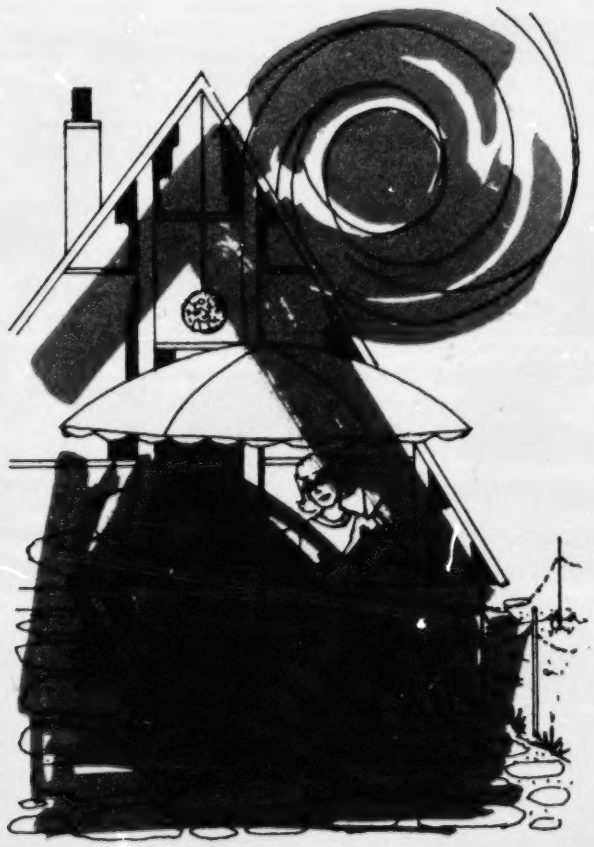
The *Canada Pension Plan* (CPP) is a contributory social insurance program which, together with the Quebec Pension Plan, covers virtually all employed persons between the ages of 18 and 70. Employees and their employers each contribute 1.8% of employee earnings and the self-employed contribute 3.6%. The contributory period spans from age 18 to 65, and under certain conditions can be to age 70.

The retirement pension is payable to the contributor at age 65, whether or not he/she is working. It amounts to approximately 25% of the contributor's insured earnings averaged over the contributory period. The maximum retirement pension in 1981 is $274.31 per month.

Disability Pensions are payable to age 65 to contributors suffering from severe and prolonged mental or physical disability, if they have made contributions to the Plan during a minimum qualifying period. Benefits are also paid monthly to the dependent children of the disabled contributor. *Survivors' Pensions* include a lump sum *Death Benefit* payable to the estate, a monthly pension for the surviving spouse and monthly benefits for the dependent children. Benefits for dependent children of disabled or deceased contributors under the age of 18 are payable to the person having custody of them. Benefits for children aged 18 to 25 are paid directly to them, providing they are in full-time attendance at a school or university. The monthly benefits are adjusted annually to reflect increases in the cost of living.

In January 1978 several important amendments were made to the Canada Pension Plan. The most significant of these was the provision to permit the equal division of Pension Credits earned by one or both spouses during a marriage, upon the dissolu-

tion of the marriage by divorce or legal annulment. The plan was also amended to provide for up to 12 months of retroactive payment of retirement benefits to late applicants between the ages of 65 and 70 who have ceased to work and make contributions to the Plan. The provision was also made for applications for retroactive benefits on behalf of deceased persons who were otherwise eligible for a benefit but who died without applying. Canada Pension Plan benefits are not paid automatically. To apply for them, or to obtain additional information on either the CPP or the Old Age Security Program, contact the nearest District CPP Office.



PENSION AND RETIREMENT PLANS

The purpose of a pension or retirement plan is to provide income in retirement years to individuals and families. There are many different kinds and types of plans designed for employees of the federal government, a municipality, a state or province, a business or an industry, or a nonprofit organization. The entire cost of a pension plan may be paid by the employer, or it may be a contributory plan with both the employer and employee sharing the cost.

Some pension plans are handled by private organizations engaged in pension plan activities, such as banks and trust companies in the United States and trust companies in Canada. Insurance companies also manage pension and retirement plans. Rates on pension plans are lower when obtained by an employer on a group basis than when paid on an individual basis.

In the U.S., the federal Employee Retirement Income Security Act of 1974 (also known as the Pension Reform Act or ERISA) assures that greater numbers of workers receive promised retirement incomes. Essentially it sets standards for most existing and future *private* benefit and welfare plans. Under ERISA, more employees qualify for membership in pension plans and many companies must now guarantee pension rights after fewer years of service. This guarantee (or "vested right") means that an employee has an irrevocable right to a pension upon reaching retirement age, even if he leaves the company before that time.

ERISA also established a new federal government corporation known as Pension Benefit Guaranty Corporation (PBGC), that protects many employees' pensions up to certain limits should funds go broke. In addition, ERISA sees that company plans are soundly financed and it imposes a new federal code of conduct on trustees who manage pension plans.

It should be realized that the powers of ERISA are limited. It does not apply to all pension plans and it cannot dictate all the terms of those to which it does apply – the minimum benefits offered, for example. It does not require an employer to provide a retirement plan nor can it necessarily oblige a company to retain a preexisting one. A job applicant would do well to ask the following questions about the plans offered by a prospective employer.

- **Is there a provision in the plan which allows the sponsoring organization to amend or discontinue it?** If so, could your previously acquired rights be changed?
- **Are pension payments guaranteed for life from the time you retire?** Can you name a beneficiary? What would your beneficiary receive?
- **What amount will you receive monthly after retirement?** What will your beneficiary receive as a lump sum benefit or in installments in the event of your death before retirement?
- **How are pension funds handled?** Are they invested in an annuity with a life insurance company or held in a special trust fund by the sponsoring organization or an independent trustee?
- **Are additional benefits available in the event of disability and death?** What would you or your beneficiary receive in either event?
- **Will you get the full amount you have contributed if you resign or are discharged before retirement?** Will you receive interest on your investment? What proportion of your employer's contribution will you receive, if any? Is this based on years of service? When will you receive the money – at the time you leave the sponsoring organization, or can or must you leave it in the fund until you reach retirement age? Is the pension fund transferable to another company?
- **To what degree will you have to alter your way of living upon retirement?** Will your pension be comparable to or less than your earnings before retirement?
- **Does the pension plan provide benefits to your spouse and dependents if you die before or after retirement?** If not, is there an adequate group life insurance plan? Have you the option to convert your pension to a joint and survivorship form?

ERISA permitted those who were not covered by any pension plan to set up Individual Retirement Accounts (IRAs). These are tax-sheltered retirement savings plans. When an individual puts money for retirement into a government-approved IRA, he or she can defer payment of federal taxes on amounts up to $2,000 a year of salary or self-employment earnings. Working couples can set aside $2,000 each in separate accounts yearly. A husband or wife with a nonworking spouse has a maximum of $2,250 a year. After age 59½, the money can be withdrawn without penalty, but it is then taxable at the regular rates. Most individuals are in a lower tax bracket at that time, however. IRA holders are required to begin withdrawals at age 70½. Only those people who were not covered by company pension plans or were self-employed were originally eligible to set up IRAs, but that changed with the passage of the 1981 tax bill. All workers are now able to do so.

The tax bill also has raised the amounts that may be contributed to Keogh Retirement Accounts. Similar to IRAs, these accounts are available only to the self-employed. Contribution limits, as of January 1, 1982, will be 15% of earnings or a maximum of $15,000. In addition, a Keogh holder may open an IRA as well, with a combined total contribution to both of $17,000.

There are many different kinds of government-approved IRAs. They are available from savings and loan associations, banks, credit unions, insurance companies, mutual funds and securities brokers. Some of the IRAs cost participants a fair amount of money, others little or nothing. Rates of return vary widely, so in order to find the one that best meets your needs and objectives, investigate several IRAs. Carefully read the terms – including the fine print – to determine exactly what you're getting.

If U.S. residents have any further questions about the economic desirability of establishing an IRA, contact the Public Affairs Staff (160), Pension Benefit Guaranty Corporation, 2020 K Street, N.W., Washington, D.C. 20006.

The Income Tax Act permits Canadians to set up a Registered Retirement Savings Plan, which is similar to an IRA. Canadians may contribute up to 20% of annual earned income or $5500 a year under some circumstances, lesser amounts under others. There are more than 200 RRSPS available from various authorized issuers – banks, trust companies, insurance companies and some investment companies.

For tax information on IRAs and RRSPS, contact your local Internal Revenue Office or your District Taxation Office.

INVESTMENTS

Although investing is usually the outlay of money for future profit or income, investment can take other forms, too. At one time or another you will probably invest in yourself in the form of education or training for a skill or profession or for personal development . . . invest in durable assets such as a home, car, furnishings or equipment for your home . . . invest in income-producing assets such as securities, a business, or real estate. Each type of investment provides a return on money in a different way. Each fulfills a different need and is of special importance at different stages in personal or family living.

Whether you invest for a monetary return or for a less tangible purpose, it is important to consider the direct benefits you will receive from that investment now as well as in the future.

INVESTING IN YOURSELF

You invest in yourself when you make a conscious effort to improve your mental and physical abilities, your appearance, and your special interests and hobbies. The returns on this type of investment are more effective living, greater earning power, and more personal satisfaction.

When you invest in an education, your objectives may be greater personal and cultural satisfactions, better job opportunities, and possibly, higher income. An education can be obtained in several ways. Your age and responsibilities, your financial situation, and the objectives toward which you are working will influence your choice. High school or a technical school can be attended on a full- or part-time basis. Further training beyond high school is available from junior colleges or colleges, universities and technical and specialized schools of various types on either a full- or part-time basis. The YMCA, the YWCA, public schools, libraries, the armed forces, and many business organizations may offer specialized adult education courses. For those who cannot attend classes, many courses are offered on television and through correspondence schools.

Your investment in education will be most worthwhile if you know your objectives. You may want to earn credit toward a high-school or college degree, prepare for a specific career or occupation, learn a new skill for job advancement, develop cultural interests and broaden your understanding, acquire new hobbies, and meet new people.

The kind and amount of education you need depend on your objectives. When you want formal education beyond high school, it is important to find out what high-school courses are required for further training. High schools, public libraries, and state or provincial departments of education are sources of information on schools and on costs and courses offered.

MEETING EDUCATION COSTS

Because of the long-term value of an education, its cost can be considered as a capital investment much as a house or a car. Today, education costs can be met in a variety of ways. It is to your benefit to look into *all* possible sources and then decide on one or a combination that will best meet your needs.

WHAT YOU CAN DO FOR YOURSELF

There are many ways *you* can contribute to the cost of your education. Be sure to consider the financial help that is right at your fingertips.

- **Earnings from a part-time job.** A part-time job can furnish students with money for educational expenses providing the student can keep up with school work at no risk to health or grades. Although part-time work is available in most colleges, universities and their surrounding communities, keep in mind that other students also will be looking for part-time jobs and they may be scarce.
- **Earnings from a full-time job.** A full-time job for a year or two after high school may furnish enough savings to go on to school with partial financial help from parents or a part-time job while in school. A full-time job during vacations can provide for part, and in some instances for all, of the next year's expenses.
- **Financial support from parents.** Some parents make provision in advance for the expenses of their children's education through insurance, or savings and investment plans. Others prefer to pay education costs out of current income by changing and sometimes reducing current living expenditures or

by borrowing money especially for this purpose.

WHAT OUTSIDE HELP IS AVAILABLE

When you need more financial help than you or your family can provide, there are many sources that offer a variety of scholarships and educational loans.

• **Scholarships** are available from many sources – look into community, company, fraternal and union programs as well as those offered by the colleges you are considering. Scholarships vary in amount and proof of need usually is required. In the United States, many colleges require the parent or guardian of a student applying for financial aid to complete a Parent's Confidential Statement and in turn how much additional financial assistance is needed. State scholarships, available in the United States, provide taxpayer support to college students. These programs grant assistance directly to the student rather than to the college in order to permit students to choose either a public or private institution. State scholarship programs are competitive and are not granted for the encouragement of a particular profession. For complete scholarship information, contact your school counselor or principal and write to the colleges in which you are interested. In Canada, contact your provincial Ministry of Education or a university awards' office.

• **The six U.S. Department of Education programs,** for students seeking post-secondary training at colleges, universities, vocational and training schools, take the form of grants, employment opportunities and loans.* Grants are outright gifts of money which do not have to be repaid; loans must be repaid with interest.

In one of these programs, the *Basic Educational Opportunity Grant* (BEOG), eligibility and the amount of the grant provided are determined by the U.S. Department of Education. Financial need is determined on the basis of a formula developed by the Department and reviewed by Congress. This program is for undergraduates enrolled in an eligible institution at least half-time. A Supplemental Form is available for those students whose financial situation is drastically altered after they apply for a BEOG. Ask your school's financial aid officer for details.

*The Department of Education publication, *A Student Consumer's Guide*, provides more information on these programs. It is available free from the Department of Education, Student Financial Aid, Washington, D.C. 20202.

Three of the Department of Education financial aid programs are campus-based; that is, the financial aid officer at each school determines which applicants are eligible and how much aid each will receive.

The *Supplemental Educational Opportunity Grant Program* (SEOG) makes grants limited to $2,000 a year for four years of undergraduate study (and a fifth year under certain conditions) to students with exceptional need. If you are selected for an SEOG, your school must provide you with additional financial assistance at least equal to the amount of the grant.

The *College Work-Study Program* (CW-S) provides jobs in public or private non-profit agencies for both graduates and undergraduates who must earn part of their educational expenses. The student's health, class schedule and academic progress are taken into consideration when job arrangements are made and work schedules set up.

The National Direct Student Loan Program (NDSL) is for vocational, undergraduate and graduate students who are enrolled at least half-time in an eligible institution and who need a loan to meet their education expenses. It allows undergraduates to borrow up to a total of $2,500 if they are enrolled in a vocational program or have completed *less* than two years of a program leading to a bachelor's degree; or $12,000 for graduate study. Repayment of the principle and interest begins nine months after the student graduates or leaves school for other reasons. Interest rates are 5% per year and may extend over a 10-year period. There are loan cancellation provisions for borrowers who go into some teaching fields, certain service in the armed forces, Peace Corps or VISTA. In addition, deferment is available any time the student returns to at least half-time study. If you default on an NDSL and the school is unable to collect, the federal government will take action to recover the loan.

The *Guaranteed Student Loan Program* (GSL) allows both graduates and undergraduates to borrow money at a 9% interest rate from participating financial organizations: banks, credit unions, savings and loan associations and other lenders. These organizations participate voluntarily in GSL and loan their own funds. They may decide to whom they will lend, within GSL eligibility guidelines and in compliance with the Equal Credit Opportunity Act. In most states, loans are guaranteed by state or private nonprofit agencies. In states without

these agencies, loans are insured by the federal government. Students not eligible for a state-guaranteed loan may be able to obtain a federally insured loan.

GSL loans are based on family income. While a family with earnings under $30,000 annually can still borrow up to $2,500 a year for each undergraduate, a family with an income in excess of $30,000 will have to pass a "need test," before the student can be considered for a loan and an interest subsidy. The total GSL debt that an undergraduate or vocational student can have outstanding is $12,500; for graduate or professional study it is $25,000, including loans made at the undergraduate level.

Families who receive GSL loans must pay a 5% *origination fee.* Since this fee is deducted at the outset from the amount of the loan, a borrower of $2,500, for example would actually get only $2,375. Interest is charged on $2,500, however. The federal government will pay interest on the loan until the borrower begins repayment, and during authorized periods of deferment, if the loan is subsidized.

The *Health Education Assistance Loan Program* (HEAL) provides federally insured loans to graduate students attending eligible schools of medicine, osteopathic medicine, dentistry, veterinary medicine, optometry, podiatry, pharmacy, public health, chiropractic medicine, graduate health administration and clinical psychology. Students in the first six fields may borrow up to $20,000 each academic year, to a total of $80,000. Students in the remaining health education fields listed above may borrow up to $12,500 for each academic year, up to a total of $50,000. These loans are made by banks, credit unions, savings and loan associations and educational institutions. There is no federal interest subsidy.

• **A package of financial aid** may be available through the college of your choice. These plans, designed to make education possible for qualified students with little financial means, may include scholarships, loans and jobs together with other sources of financial help.

• **Provincial loans** may be available for Canadian students. For information, contact your high-school counselor or write to the Deputy Minister of Education in your provincial capital.

• **Installment or budget payment educational loans** from financial institutions also may be available to parents or students. These loans usually provide funds at the beginning of each school term and repayment is in monthly installments which occur on a "pay as you learn" basis. Repayment periods vary — longer repayment plans reduce monthly payments but increase credit costs. Loans may include insurance which guarantees funds to complete education if the parent should die or become totally disabled. Before borrowing, find out the amount that can be borrowed . . . the annual percentage rate per year . . . the total cost . . . when repayment is due . . . the size of payments . . . whether repayment plans will fit your total financial plan. Details concerning installment or budget payment educational loans are normally available through college business or admission offices.

Learning is a lifetime process and should not stop when one leaves school. The person who understands himself, develops his interests and talents, and remains intellectually curious will be rewarded with worthwhile experiences and new relationships throughout his life.

INVESTING IN DURABLE GOODS

Durable goods include items which give relatively long-term service such as a house, a car, home furnishings, and household or other equipment.* The return from investments of this kind may include increased comfort, enjoyment and convenience in living. In some instances, durable goods can offer savings in money, time and energy. For example, items such as laundry equipment may result in savings in laundry costs, time and energy. Depending on how often such items are used, these savings, over a period of time, may more than pay for the cost of the item.

Most durable goods represent an investment of a relatively large sum of money. Since there is considerable variation in price, quality of materials and workmanship, style and size of specific items, it takes thoughtful planning, skillful shopping, and a basic knowledge of consumer facts to choose the particular item that suits your needs and fits into your overall spending plan.

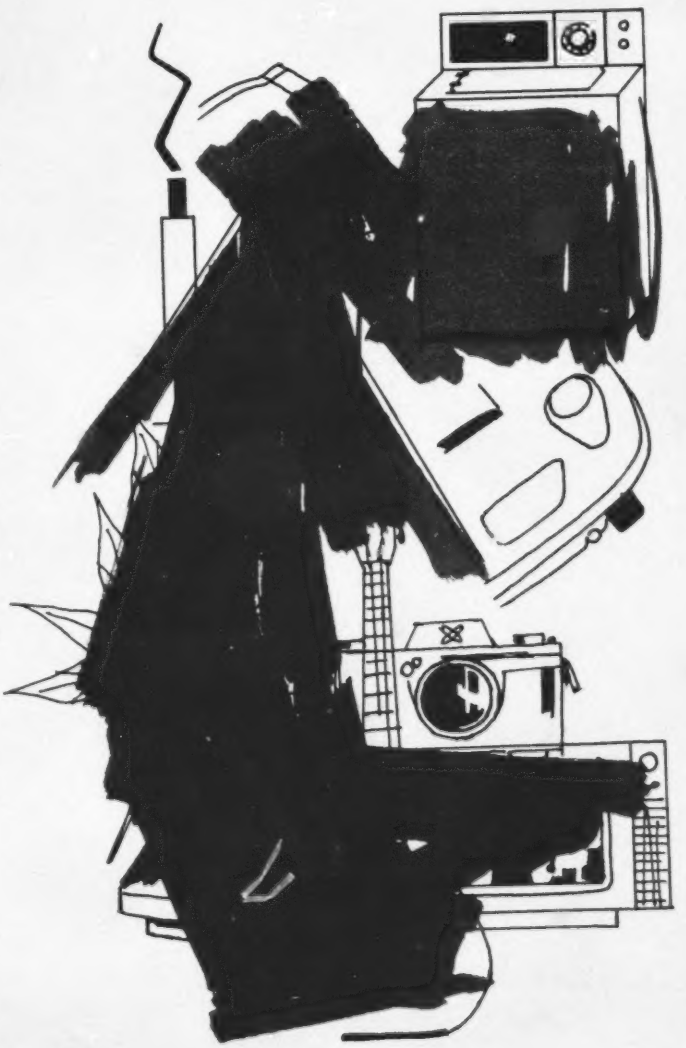
To judge the value of a specific item as a sound investment for you, consider these questions.

- **Is the item a necessary part of living** — something not now owned or something you are replacing because it is worn-out or outdated?
- **Is the investment worth its cost** in terms of increased comfort, convenience and enjoyment or savings in time, energy or money?
- **Does the item suit individual or family requirements** as far as size, style and quality of materials and workmanship are concerned?
- **How will it be paid for** — with cash or credit? If credit is to be used, do you understand the different kinds and the costs so that you can choose the services and terms best suited to your situation?

The method of payment is an important consideration in planning an investment in durable goods. Generally, you have the choice of paying cash or using one of the several forms of consumer credit.

Paying cash is the least expensive way to buy since there is no finance charge involved. In addition, paying cash offers the opportunity for shopping around and taking advantage of bargains or discounts. In most cases, however, cash buying requires that the need for durable goods be anticipated well in advance of the actual purchase to provide time to accumulate the necessary amount by setting aside money regularly over a period of time before any purchase is made.

Studies on family spending show that, during the family life cycle, peak demands on income seldom coincide with peak earning periods. As a rule, the need and desire for items that require a large cash outlay are greatest when the family is growing. Therefore, it is often difficult for families to save the necessary money in advance for certain items. Consequently, for many individuals and



*Booklets which cover planning, selecting and caring for specific durable goods are listed on page 40.

families it is both convenient *and practical* to use consumer credit, providing they can fit the payments into their overall spending and saving plan.*

Consumer credit allows the borrower to meet current needs and wants through use of future income. There is a charge for this service in addition to the cost of the items purchased. Therefore, once you decide to use consumer credit, it is equally important to shop for credit just as you shop for any other type of goods or services. Credit costs vary with the item being purchased, the risk involved, the services included, and the source of the credit.

In the United States, the Federal Consumer Credit Protection Act, commonly known as Truth in Lending, requires merchants and lenders to state finance charges in dollar amount and annual percentage rate. Most Canadian provinces have a similar law. By shopping around and comparing the credit charges and services, you will find the source which best serves your needs and your pocketbook.

To use consumer credit wisely you should 1) know the different kinds of credit, 2) know the cost involved, 3) find out the services offered, and 4) understand the terms of your credit contract. The important thing to remember in using any type of consumer credit is to purchase only those items which you know can be comfortably paid for out of monthly income. Individuals or families who take on more credit obligations than their spending plan will allow are inviting financial problems.

Durable goods have both a money value and a use value. At a later date, the money value or resale value may not equal the amount invested due to depreciation. Therefore, when investing in most durable goods, greater importance should be placed on how well a particular item fits individual or family needs than on its resale value. With care, the use value can be maintained for years even though the resale value may have decreased. When purchases of durable goods are wisely planned, they are an investment in one's level of living.

*MANAGING YOUR CREDIT, listed on page 40, provides a complete and objective guide to understanding consumer credit and managing credit dollars.

INVESTING IN INCOME-PRODUCING ASSETS

Investing in income-producing assets generally means putting money to use for the purpose of receiving a return in the form of interest, dividends, increase in value, rent, profits or some other income. When investments are wisely made in a number of income-producing assets (called diversification), the possible loss on one investment may be offset by a gain in another.

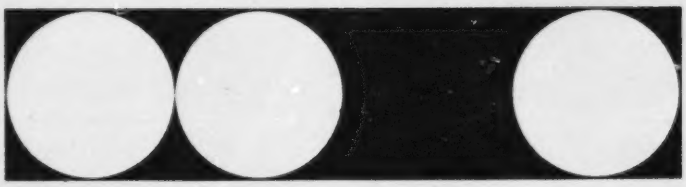
Each of the three types of income-producing assets – securities, real estate, and ownership in a business – has characteristic differences as discussed on the following pages.

Securities include bonds and stocks which are issued to obtain funds for operation, production and expansion. Municipalities and governments issue bonds; corporations issue stocks as well as bonds. Depending on the type of security, the return on the investment may be in the form of dividends or interest, a possible increase in the value of the investment or, in some cases, both.

Bonds represent money loaned to the issuer for a long period of time. You receive a bond certificate as formal evidence of your investment. The issuer promises to pay you 1) a stated amount of interest at specified times and 2) the principal (face value) at a definite future date. Bonds are quoted on the market at a percent of face value. The current market value, depending on economic conditions and the financial position of the issuer, may be above or below face value. As a result, the yield on the bond may be higher or lower than the stated rate. Because interest, principal and maturity are fixed, bonds of reliable issue tend to be more stable in price than other types of securities. There are four main types of bonds.

- **Government.** United States Government securities include Treasury bonds, issued for periods longer than 10 years; Treasury notes, issued for one to 10 years; and Treasury bills, issued for one year or less. Canadian Government Marketable Bonds include Government of Canada Bonds, ranging in maturity up to 25 years, and Treasury Bills up to one year.

- **Municipal.** Bonds are issued by various local governments – state or provincial, city and county. The interest and principal on general obligation bonds are paid from taxes collected by the local government; the interest and principal on revenue bonds are paid solely from the income from municipally owned projects. In the United States, the interest from municipal bonds is exempt from federal income taxes.



• **Corporate.** Bonds are issued by many business corporations and have claim on both income and assets ahead of the stock of the corporation. Corporate bonds vary in quality with the financial strength of the corporation.

• **Foreign.** Bonds of foreign governments, municipalities and corporations also are available.

Bonds differ in the form of security backing them. Corporate bonds are designated as follows: *Secured bonds* (including "mortgage bonds") are backed by a pledge of specific real property. *Unsecured bonds* (including "debentures") represent a promise to pay interest and the face value of the bonds when due. Their quality depends on the caliber of the issuing company.

Some bonds have special features. *Convertible bonds* may be exchanged for common stock under specific conditions. Most bonds are callable, i.e., they may be redeemed by the issuer at a fixed "call" price before their maturity date.

Stocks are issued by corporations and represent ownership in the corporation. Prices of stocks vary and their value fluctuates with market conditions. Because of the risk involved and depending on economic conditions, stocks may pay a higher or lower rate of return than do the bonds of the same corporation. Stocks are sold in units known as shares. The stock certificate is your proof of ownership. There are two types of stocks — common and preferred. A corporation may offer both types of stock or only common stock.

• **Preferred stock** is a security which has claim on the assets of the corporation after bondholders and other creditors have been paid but before the claim of common stock. Preferred stock pays dividends at a stated rate. Most preferred stock is cumulative. (Dividends not paid when they are due accumulate and must be paid at a later date before any dividends can be paid on common stock.) Some preferred stocks have a *conversion* feature which permits them to be exchanged for common stock at a given ratio and generally within a specified time limit.

• **Common stock** is a security which has claim on profits of the corporation only after claims of creditors and preferred stockholders are met. Common stock pays dividends as they are declared by the board of directors of the corporation. The amount of the dividend may fluctuate, depending on the financial position of the corporation, economic conditions, and management plans. When earnings of a corporation are good, its

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common stock may offer opportunity for increase in value and/or income. In times of economic uncertainty or when corporation earnings are poor, common stock may decline in both income and value.

MONEY MARKET FUNDS

Money market funds are among the most popular investments today. These too are mutual funds – i.e., they consist of the pooled assets of small individual shareholders and are run by professional investment managers. These investments are usually a mix of U.S. government securities, government agencies, bank certificates of deposit, and commercial paper (unsecured corporate IOUs from top-rated corporations). Some money market accounts can be opened with a minimum of $1,000, but before doing so, obtain a prospectus and carefully review it.

Money market funds historically pay a much higher rate of return than do savings accounts in banks and S & Ls, and thus offer a hedge against inflation. The funds differ in investment policies, fees, services, the way they evaluate portfolios, and the methods they use to compute yields. The interest rates fluctuate and the accounts are not insured. Generally an investor is permitted to write checks of $500 or more on an account.

KNOW THE RISKS INVOLVED

Investing in securities should be done thoughtfully and carefully. Facts on securities can be found in business magazines, reports from trade and professional organizations, statistical services relating to securities, industry surveys made by government and educational institutions, and investment firms. Visit your public library or contact your broker. Brochures also are available on a subscription basis, and annual reports may be obtained by writing to the individual firm or organization.

Your answers to the following questions may help you in making your decisions concerning investing in securities. The relative value of one point or another may vary with different securities, as well as in their importance to you.

1. *What are your investment objectives?* Depending on your present financial position and your long-range financial goals, rate the following four points in the order of their importance to you, and make your investment decisions accordingly.

- **Safety of principal**—assurance of regaining the full amount of your investment.
- **Stability of income**—regular and uninterrupted payment of interest or dividends.
- **Growth**—an increase in the income from, and the value of, your investment over a period of time.
- **Marketability**—quality of being readily salable.

2. *What types of securities are best for you?* Whether you invest in common stocks, preferred stocks, or bonds will depend on your objectives. While you may want an investment that fulfills all the objectives listed above, this usually cannot be accomplished realistically with any one single security. This may be possible, to some extent, through a portfolio (group of securities) representing different types of investments or through buying into an investment fund that follows this same principle.

3. *Which industry is best for your purposes?* Major industries include transportation, public utilities, natural resources, manufacturing, merchandising, financial companies, and special industries. The important considerations in choosing an industry in which to invest are a) its financial stability, b) its opportunity for future growth, and c) the degree to which the products are essential to the economy.

4. *In which specific corporation within an industry should you invest?* To determine this, investigate the following:

- **Economic position.** What are the corporation's future possibilities for expansion? What is its standing within the industry or area? What is its competition?
- **Financial stability.** Does the balance sheet show adequate cash, working capital, and common stock ownership? What is the ratio of current assets (what is owned) to current liabilities (what is owed)? What is the ratio of total debt to total assets? Study the past and present earnings and dividend records. Have earnings remained stable, increased or decreased over the past years? A rising trend is a good sign. Annual reports of a corporation give this information.
- **Quality of management.** Who are the people running the business, and what are their abilities and reputations? Are their policies enterprising and forward looking? To some extent, the financial condition and earnings are an indication of the quality of management.
- **Current price.** Is the asking price reasonable in comparison to other securities of comparable quality? Consider the trend in earnings—have they increased or decreased over the past years? Is the trend likely to continue in the future?

HOW TO BUY SECURITIES

Securities are purchased through an investment dealer, a brokerage firm, or an investment company. You may wish to shop around to find the source that best meets your requirements. The recommendation of a trusted friend, business associate, your banker, or lawyer can guide your choice, especially if you know that his business dealings with the investment dealer or brokerage firm have been satisfactory.

Investment dealers or brokerage firms buy or sell securities in two ways—through stock exchanges such as New York, Midwest, Montreal and Toronto or "over the counter," i.e., securities which are not listed on any exchange. Many investment dealers and brokerage firms are members of stock exchanges—only members can trade "on the floor" of the exchange. However, those who are not members can deal through members. You pay a commission fee to the investment dealer or brokerage firm when buying or selling securities.

Stocks are sold in units, known as shares, at a certain price per share. The price is quoted in dollars and fractions of dollars, such as 25¼ ($25.25). Most stocks are traded on the exchange in 100-share units called "round lots." However, you can buy "odd lots," which are smaller than standard or round lots. In this case, your stock is bought from an "odd lot dealer" who combines the "odd lot orders" of several dealers to make up a round lot. Because of the added service and work involved, you pay a higher price when buying in odd lots than when buying in round lots.

Bonds usually are sold in units of $1,000, known as the par or face value. This is the amount on which interest is figured. The price at which you buy or sell a bond may be above or below par value, depending on market conditions.

WHEN TO BUY SECURITIES

Before you buy securities, it is important that you have adequate cash reserves in a commercial bank, credit union, mutual savings bank, or savings and loan association to meet normal family income needs for a reasonable period of time, for example, six months, and sufficient life insurance to provide for the income needs of your beneficiaries in the event of your untimely death. When this is accomplished, you need to determine the timing of your securities purchases.

The problem of purchasing securities when they are selling at historically high prices can be solved

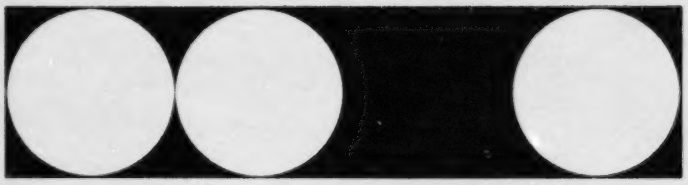
by using a systematic procedure for the periodic purchase of high quality securities. One proven method is called dollar averaging.

Some brokerage firms, who are members of the New York Stock Exchange, offer a Monthly Investment Plan under which you can buy stock on a periodic basis. You sign an agreement which states the amount you want to invest regularly over a definite period of time and your choice of stock. You may discontinue at any time. Each time you make a payment (this may be as low as $40 monthly or quarterly), your broker buys the number of full and/or fractional shares which your payment will allow, the amount of which is credited to your account. There usually are no extra charges for this service—you pay the regular price for stocks and the standard rate of commission. This method of investing a definite amount periodically offers the opportunity of dollar averaging as illustrated below.

How Dollar Averaging Works

	1st quarter	2nd quarter	3rd quarter	4th quarter
Amount Invested	$100.00	$100.00	$100.00	$100.00
Market Price Per Share	$ 20.00	$ 25.00	12.50	20.00
Number of Shares Purchased . . .	5	4	8	5
Total Number of Shares Purchased	5	9	17	22
Total Amount Invested	$100.00	$200.00	$300.00	$400.00
Average Cost per Share	$ 20.00	$ 22.22	$ 17.65	$ 18.18

In dollar averaging you put the same fixed amount of money periodically into the same stock or stocks regardless of current price. Your fixed amount of money buys more shares when the stock is low--fewer shares when the stock is high. Dollar averaging, over a period of time, results in the average cost of all shares purchased being lower than the average price at which shares were bought. Thus your puchases are made at an average of the price over the time involved.



Investment companies, also known as investment funds or investment trusts, offer the opportunity to 1) invest in a variety of securities to minimize risk through diversification, 2) hire investment specialists to manage your investment, and 3) readily sell your securities at any time. There are two basic types of investment companies.

• **Closed-end companies** have a fixed number of shares outstanding. You buy or sell these securities through an investment dealer or broker just as you buy corporate securities. You pay a commission fee when buying or selling. The price of the security is determined by the action of the market, as are the shares of any corporation.

• **Open-end companies,** commonly called *mutual funds,* issue new shares whenever an investor wants to buy. Therefore, the number of shares outstanding varies from day to day. In buying or selling these securities, you deal with the investment company or a licensed dealer. The value of the shares is determined by dividing the net assets of the company by the number of shares outstanding on the day of the transaction—called net asset value. Most funds make an added charge, e.g., 7-8% to cover distribution costs; others, generally called "no-load" funds, do not. Shares can be sold at current net asset value at any time.

The securities of investment companies are sold under the name of the investment company. They generally can be purchased as a lump sum investment or on an installment investment plan. An initial investment of $100, $250 or a larger amount may be required to open the account; thereafter, in installment plans, the investor agrees to add a stated amount ($25 or more) each month or quarter toward the purchase of additional shares on the dollar averaging basis.

The types of securities held by an investment company depend on the company's investment policies.

• **Balanced funds** distribute investments among bonds, common and preferred stocks. They offer safety of principal and stability of income as their main objectives.

• **Most other funds** place varying degrees of emphasis on growth of income and net asset value and less upon stability of income and asset value.

• **Specialized funds** limit investments to a certain type of security such as all common stocks, all preferred stocks, or all bonds . . . to securities of certain industries such as transportation, communications, utilities, or natural resources . . . to securi-

ties of a particular country . . . or to securities of corporations in a particular section of the country.

To evaluate an investment company, obtain a prospectus from your investment dealer, broker or directly from the company. A prospectus gives a complete history of the company and its plan of operation. Study it carefully so that you will understand all phases of its operation, management, expenses and progress, and its primary objectives. Federal law requires that the objectives be clearly stated.

In buying securities, regardless of whether you are building your own portfolio (group of securities) or investing through an investment company, the following suggestions may prove helpful.

• **Choose a well-established investment dealer or brokerage firm** and select a representative in whom you have confidence. Then tell him frankly about your financial position, what you want your money to do for you, and to what degree you are dependent upon the income from your investments to pay living expenses or to meet other goals.

• **Investigate a security or an investment fund thoroughly before you buy.** Facts as suggested on pages 27-30, not "tips" or "hunches," are the only sound basis for investing in any type of security.

• **Know your investment objectives.** Decide what degree of risk of loss of income or principal you can, and are willing to, assume. Then evaluate how effectively each investment will accomplish your objectives. Review your objectives periodically to be sure your goals are the same.

• **When building your portfolio, spread your investments** among several types of securities, several industries and, preferably, several companies, each in a different industry. Diversification, when each investment is chosen carefully, is an effective way of minimizing risk.

• **In all investing, keep informed** about the past and current economic position, the quality of management, and the financial stability of each security you own. Does the record show fairly consistent dividends and earnings over the years with not too many lean periods? Is it an established, seasoned organization or a new venture?

• **Find out the fees for buying and selling securities.** If the securities are those of an investment company, find out how much of its income is used to pay for management and other expenses.

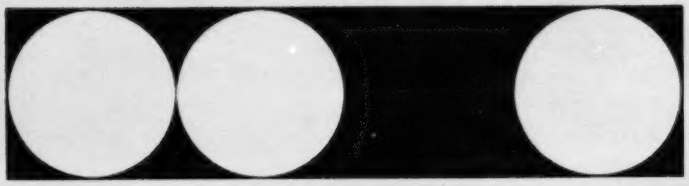
• **Be prepared to wait for a return on your investment.** Do not expect to "get rich quick." Sell only if you have demanding need for the money, if adverse factors arise affecting the security, or if another security of the same quality offers better income or growth potential.

The person who wishes to gain investment experience with little or no money involved can *follow the market, join an investment club,* or *take a formal course in investments.*

Following the market is a technique which can be used by individuals and families or applied equally well in the classroom. The same factors as suggested for selecting securities, pages 27-30, are considered but no money is invested. From time to time, you pick certain securities in which you would like to invest, then follow their progress. If you wish to change from one security to another, do so. Keep a record as though you had actually bought and sold securities. Over a period of months or years, you will gain valuable practice and experience. When the time comes that you want and are in a financial position to actually invest, you will have a working knowledge of how to go about it.

Investment clubs are a way of learning the fundamental principles of sound investment through practice. These clubs are organized groups of usually eight to sixteen persons. At each meeting, an appointed committee reports on its study of a selected industry or group of securities. Investments in specific securities are made only on a majority vote. Each member contributes a definite sum monthly—generally $10 or a multiple thereof. The funds of the group are pooled and invested regularly, following the practice of dollar averaging. Earnings may be reinvested to increase income and holdings. In the United States, information on investment clubs can be obtained from the National Association of Investment Clubs, P.O. Box 220, Royal Oak, Michigan 48068.

Courses on investments offered in high school, college or adult education classes provide additional opportunity for gaining investment experience.



REAL ESTATE

Generally, the first consideration in buying a house for family living is how well the house and the community suit individual and family income and needs, both now and in the future. Secondary consideration is given to the value of the house as an investment. While a house, when well located in a growing and well-zoned community, could increase in value and thus prove to be an excellent investment, only houses bought for rental purposes are treated as an investment in this section.*

Investment real estate includes property in commercial, residential or farm areas. This type of real estate may be termed *improved* which implies land with buildings, or *unimproved* which indicates vacant land.

Improved property may give an immediate return in the form of commercial or other rentals and an increase in value over a period of time. Unimproved property is usually a long-term investment. It is bought because you expect it to increase in value, so that it can be sold at a profit. The value of both improved and unimproved property fluctuates with changing economic conditions. However, investing in real estate generally is considered a protection against inflation. If it is rental property, consider the possibility of loss due to vacancies. Investing in real estate requires a keen business sense plus expert management in order to make it worthwhile.

Before investing in real estate, the following points may prove helpful.

• **Acquire a knowledge of property values** and of local conditions which may affect the future value of the property in areas where you plan to invest.

• **In buying improved real estate, consider the amount of your initial investment** as well as any future investments which may be required periodically in order to maintain the property. This includes all cost of upkeep and maintenance, depreciation, taxes, assessments and any improvements, repairs and decorating that may be necessary during your ownership of the property. Compare the estimated total expenses with the income you expect to gain from the property.

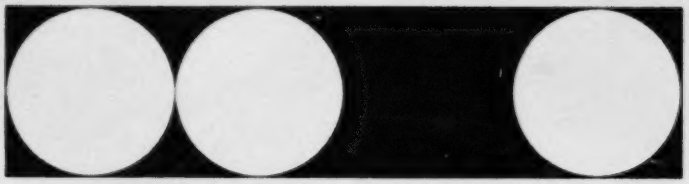
• **Invest only money which you will not need for an extended period of time.** Depending on the type of property, be prepared to "play a waiting game" in order to realize an increase in value or gain a profit from rentals.

*YOUR HOUSING DOLLAR, listed on page 40, shows how to plan housing needs and costs whether you rent, buy or build.

• **Do not assume such a large mortgage on improved property that it takes all the income you have to meet mortgage payments.** If it is unimproved property, will the rate of interest and taxes you pay be offset by an increase in value?

• **Use the service of a competent, reliable real estate agency** in finding suitable property in which to invest. An agency that holds membership in the National Association of Real Estate Boards in the United States or the Canadian Association of Real Estate Boards in Canada follows a strict code of ethics in business dealings and can be recognized by its use of the term *Realtor.* If you are in doubt about the value of a piece of property which you are considering as an investment, you may wish to have it appraised by a real estate appraiser or counselor who is an expert in property values. However, do not confuse a real estate appraiser or counselor with a real estate agent.

• **Have your attorney investigate all matters concerning the purchase and sale of property.** Before completing any real estate transaction, be certain the seller actually owns the land and can deliver clear title to it. You may wish to obtain a title insurance policy (or a Torrens title certificate) which guarantees that the title is free from defects and any liens. It also insures against the possibility of human error in either the searching or examination of the title. Be sure to record the title with the designated public official immediately.



OWNERSHIP IN A BUSINESS

For some people, owning their own business is an important objective, not only because of the monetary return, but because they take pride in ownership, look forward to "being on their own," and find satisfaction in the independence it offers. But, owning a business involves uncertainty, both as to the rate of return and regaining the full amount of the investment. Also, frequently you must invest a relatively large amount of money over a long period of time. If it becomes necessary to sell the business before it is fully developed or on short notice, the possibility of loss is much greater.

You can invest in a business either by starting one yourself or buying one already established. Businesses are organized in three principal ways. 1) You can be the *sole proprietor,* in which case you assume complete liability and responsibility for the business. 2) You can form a *partnership* whereby you go into business with one or more persons. Since each person is liable for the acts of the others, a legal agreement should be made in writing which states the capital investment by each partner, the duties of each partner, and the way in which profits and losses are shared. 3) You can organize a *corporation* which has a board of directors and sells stock to provide funds for operation. In this case, your liability is limited to whatever you have invested in the corporation. However, the greater the proportion of the capital stock owned by one person, the greater his percentage of returns from the business.

Before investing in any business, consider the following points.

• **Your personal qualifications.** Do you have a knowledge of the business and the skill necessary to provide the product or service you plan to sell? If not, it may be wise to work for someone else until you learn the technical aspects of the business. Do you have the qualities which are important when dealing with people? Is your temperament suited to running a business? Do you have the capacity for self-discipline to manage your own time and to direct your efforts profitably?

• **The type of business in which to invest.** Is it an essential business for which there is an existing or potential market for the product or service you plan to sell? Is it in an industry which is growing, stable or in a decline? What is the extent of the potential market? What share of this market do

you need to have a profitable business? How will you obtain this share and how long will it take?

- **The amount of money you have to invest.** It is important to have sufficient capital to establish the business, finance it, and provide for your own living expenses until the business is on a paying basis.
- **Your knowledge of business management.** The success of your business depends on keeping adequate and accurate records, the credit policies which you establish, your ability to supervise others, and the goodwill you can build for your business.
- **The location.** The city or town, area, street and location on the street, and the potential market for your product in that area may be important considerations in choosing a location right for your type of enterprise.
- **The amount of time and energy you can devote to the business.** To keep a business running smoothly and at a profit requires time, energy and a close watch over both the managerial and the financial affairs.
- **A competent attorney.** Be sure the transfer of title and other legal matters regarding the business you have purchased are transacted according to law.

YOUR SAVINGS AND INVESTMENT PROGRAM

In planning your savings and investment program, a personal net worth statement will provide an overall picture of where you now stand financially. A net worth statement – prepared periodically – will show the assets you have accumulated and the liabilities you have incurred, serve as a record of the financial progress you have made, and help you plan your future savings and investment program in order to accomplish your objectives.

Adapt the following net worth statement to your situation by adding or omitting items to make it work for you. Begin by listing the financial resources you can count on now. By balancing what you own against your bills, loans and other debts, you can arrive at a clear picture of your present financial situation.

To figure the current value of insurance, investments, pensions and annuities, contact your banker, insurance agent, or broker and read the financial section in newspapers and magazines. For the cash value of employee security plans, talk to your employer.

In figuring the cash value of durable goods, list them at the actual price they would bring if converted to cash or at the replacement cost if they are insured accordingly. To estimate the value of durable goods, refer to bills of sale, cancelled checks, and current prices in retail stores.

Education is not included because no cash value can be placed on it. It is an intangible investment in living.

Rechecking and reevaluating your net worth statement periodically during various stages of the life cycle will help you chart your course and check your progress toward your financial objectives.

Date _____

WHAT YOU OWN

Cash in checking accounts	$ _____
Cash in savings	_____
Current value of government savings bonds	_____
Cash surrender value of insurance policies	_____
Equity in pensions	_____
Equity in profit-sharing plans	_____
Current value of annuities	_____
Loans owed you	_____
Retirement funds	
Individual Retirement Account or Keogh Plan (U.S.)	_____
Registered Retirement Savings Plan (Canada)	_____
Tax refunds due	_____
Cash value of ownership in a business	_____
Market value of securities	
Bonds	_____
Stocks	_____
Mutual funds	_____
Investment trusts	_____
Cash value of personal property	
Home and other real estate	_____
Car(s)	_____
Furniture	_____
Appliances	_____
Other (furs, jewelry, antiques, fine art, etc.)	_____
Other assets	_____
_____	_____
_____	_____
TOTAL ASSETS	$ _____

WHAT YOU OWE

Mortgage debts (home and other real estate)	_____
Installment debts (balance due on car, furniture, appliances, etc.)	_____
Personal loans	_____
Current bills outstanding	_____
Taxes due	_____
Other liabilities	
_____	_____
_____	_____
TOTAL LIABILITIES	$ _____
YOUR NET WORTH (assets minus liabilities)	$ _____

CONCLUSION

It takes clear thinking to analyze your present financial position and plan for future responsibilities. But, once you start, you will find it a challenging and rewarding experience. As you look for a savings and investment program that suits your needs, wants and income, you will establish a financial plan which, over the years, can give you much satisfaction and peace of mind.

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In order to present a well-balanced point of view in this booklet, a number of persons were consulted, and many publications were reviewed. This booklet represents a synthesis of information rather than the viewpoints of individuals. For assistance in helping us obtain a clearer understanding of the subject, we give grateful acknowledgement to:

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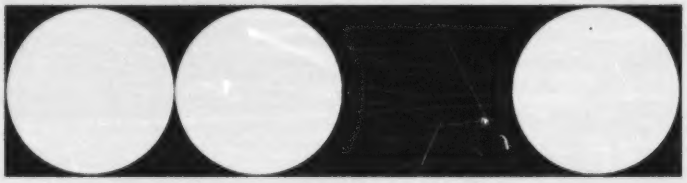

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